

## Unit

## 1

## Before you read

Discuss the following with your partner.

- Do you know much about economics?
  - Tick which of these statements you think are true.
  - Then explain to your partner why.
- 1 Economics is only the study of money.
  - 2 Economics is something governments take care of.
  - 3 An economist basically decides how money is spent.


 Reading 1

## What does economics study?

What do you think of when you hear the word *economics*? Money, certainly, and perhaps more complicated things like business, inflation and unemployment. The science of economics studies all of these, but many more things as well. Perhaps you think that economics is all about the decisions that governments and business managers take. In fact, economists study the decisions that we all take every day.

Very simply, economics studies the way people deal with a fact of life: resources are limited, but our demand for them certainly is not. Resources may be material things such as food, housing and heating. There are some resources, though, that we cannot touch. Time, space and convenience, for example, are also resources. Think of a day. There are only 24 hours in one, and we have to choose the best way to *spend* them. Our everyday

 A Vocabulary

Match the words with the definitions.

- |                 |   |
|-----------------|---|
| 1 budget        | <b>A</b> the people who control a country and make laws   |
| 2 business      | <b>B</b> information  |
| 3 convenience   | <b>C</b> company that sells goods or services   |
| 4 data          | <b>D</b> easiness   |
| 5 demand        | <b>E</b> the amount of money you have for something   |
| 6 government    | <b>F</b> how much people want something   |
| 7 inflation     | <b>G</b> the number of people without work  |
| 8 resources     | <b>H</b> something such as money, workers or minerals belonging to an organisation, country, etc which can be used to function properly |
| 9 trade-off     | <b>I</b> rising prices  |
| 10 unemployment | <b>J</b> giving away something in exchange for something  |

lives are full of decisions like these. Every decision we make is a *trade-off*. If you spend more time working, you make more money. However, you will have less time to relax. Economists study the trade-offs people make. They study the reasons for their decisions. They look at the effects those decisions have on our lives and our society.

## What are microeconomics and macroeconomics?

Economists talk about *microeconomics* and *macroeconomics*. Microeconomics deals with people, like you and me, and private businesses. It looks at the economic decisions people make every day. It examines how families manage their household budgets. Microeconomics also deals with companies - small or large - and how they run their business. Macroeconomics, on the other hand, looks at the economy of a country - and of the whole world. Any economist will tell you, though, that microeconomics and macroeconomics are closely related. All of our daily microeconomic decisions have an effect on the wider world around us.

Another way to look at the science of economics is to ask, 'what's it good for?' Economists don't all agree on the answer to this question. Some practise *positive* economics. They study economic data and try to explain the behaviour of the economy. They also try to guess economic changes before they happen. Others practise *normative* economics. They suggest how to improve the economy. Positive economists say, 'this is how it is'. Normative economists say, 'we should ...'.

So what do economists do? Mainly, they do three things: collect data, create economic models and formulate theories. Data collection can include facts and figures about almost anything, from birth rates to coffee production. Economic models show relationships between these different data. For example, the relationship between the money people earn and unemployment. From this information, economists try to make theories which explain why the economy works the way it does.

### B Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 .....

PARAGRAPH 2 .....

PARAGRAPH 3 .....

PARAGRAPH 4 .....

PARAGRAPH 5 .....

A How economists work

B Making deals every day

C Various ideas about economics

D Two areas of economics

E Two types of economist

### Before you listen

Discuss these questions with your partner.

- If you live in a modern economy, life is quite easy.
- Before the Industrial Revolution, life was much harder.
- In what ways was life more difficult?

### C Listening

Listen to someone talking about life before the Industrial Revolution. Which of these things are mentioned?

- |                   |                          |
|-------------------|--------------------------|
| 1 length of life  | <input type="checkbox"/> |
| 2 housing         | <input type="checkbox"/> |
| 3 illnesses       | <input type="checkbox"/> |
| 4 work            | <input type="checkbox"/> |
| 5 food            | <input type="checkbox"/> |
| 6 having children | <input type="checkbox"/> |

Now listen again and match the descriptions with the numbers.

- |  |   |           |
|--|---|-----------|
| 1 life expectancy  | A | about 250 |
| 2 number of children who died before they reached five years old | B | 1 in 10   |
| 3 number of women who died when they were giving birth           | C | 25        |
| 4 years since the Industrial Revolution                          | D | 1 in 3    |

## Before you read

Discuss these questions with your partner.

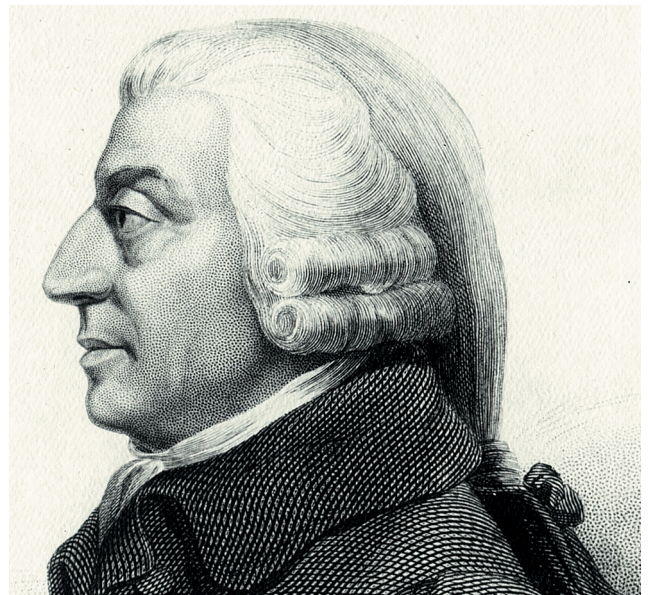
- Do you have any idea where the word *economics* comes from?
- Do you know the names of any famous economists from the past or anything about their ideas?

## D Vocabulary

Complete each sentence with a word or phrase from the box.

- abundance ■ concept ■ consumer
- firm ■ Industrial Revolution ■ population
- precious metals ■ production process
- profit ■ raw materials ■ satisfaction
- scarcity

- 1 The ..... began in the late 18th century when machines started to replace human workers.
- 2 Sand and limestone are the ..... needed to make glass.
- 3 The ..... to make a car involves many people and machines.
- 4 The extra money a company makes is called .....
- 5 People want ..... from the products they buy.
- 6 ..... is when there is very little of something.
- 7 ..... is when there is lots of something.
- 8 Gold and silver are examples of .....
- 9 Another word for idea is .....
- 10 The ..... is the number of people a country has.
- 11 A business or company is sometimes called a .....
- 12 When we buy things or use services we are a .....



## Reading 2

# History of economic thought

Economic thought goes back thousands of years. The ancient Greek, Xenophon, used the word *oikonomikos* (from *oikos*, meaning *family, household, estate*, and *nomos*, for *usage, law*). He was talking about skilful or clever ways to manage land and households. We could call many of Aristotle's political writings *economics*, although he did not use the word. The English word *economics* first appeared in the 19th century - two and a half thousand years after Xenophon.

Early economic thought was all about the meaning of wealth or being rich. These early thinkers asked, 'what makes a state or a country wealthy?' For nearly 2,000 years, the answer was very simple: gold. A country or nation's wealth depended on its owning precious metals. This simple view of the economy remained until medieval times.

During medieval times - roughly the period between 1100 and 1500 AD, trading between nations grew, and a new social class appeared. These were merchants, people who made their money through the buying and selling of goods, and they began to write their own thoughts on the economy. They saw the economy as a way

to make the state strong. For them, the nation's wealth depended on stocks of gold and the size of the population. More people meant bigger armies and a stronger state.

These were still simple ideas. However, daily experience had also taught people many basic economic concepts. For example, they understood the importance of trade with other states. They realised that scarcity makes things more expensive and abundance makes them cheaper.

Modern economics was really born in the 19th century. At this time, thinkers like Adam Smith wrote down ideas that are still important today. Adam Smith is often called *the Father of Modern Economics*, although the science was called *political economy* then. Smith realised that a nation's wealth depended on its ability to produce goods. The value of these goods depended on the cost of production. The cost of production depended on the cost of workers, raw materials and land. This was really the first example of macroeconomics.

Smith and other classical economists were writing at a time of great change. The industrial revolution had begun. Paper money began to replace precious metals. The middle classes were growing stronger. Economists' theories echoed these changes. They wrote about the division of labour (each worker taking their part in the production process). They discussed the problems of population growth. They influenced thinking about social classes.

For classical economists, the value of goods depends on the cost of production. However, the price of goods is not always the same as their real cost. Later economists developed new theories to explain this *weakness* in classical economics. These are known as the *neoclassical* economists and they were writing at the end of the 19th and early 20th centuries.

In neoclassical economics, supply and demand make the economy work. In other words, the price of goods depends on how much people want them and how easily they can be found. Consumers want satisfaction from their resources (time and money). Firms want profit. In neoclassical economics, this is the basic relationship in the economy. These ideas are still the basis of economic thinking today.

## E Comprehension

Now read the text again and decide whether these statements are true or false.

- 1 Aristotle did not use the word *economics*, but he did write about economic ideas. T  / F
- 2 Early economists thought that a nation without gold was poor. T  / F
- 3 People in medieval times didn't understand anything about economics. T  / F
- 4 In classical economics, the value of something was measured in gold. T  / F
- 5 Economists later found a problem with the *classical* model. T  / F
- 6 In neoclassical economics, supply and demand control price. T  / F

## Before you listen

Look at this fact file about Adam Smith. Can you fill in any of the information?

- Born in Scotland in (1) .....
- Lost his father at the age of (2) .....
- Kidnapped at the age of (3) .....
- Went to University of Glasgow at the age of (4) .....
- Went to Oxford University at the age of (5) .....
- Most famous book is *The Wealth of* (6) .....
- Influenced Karl Marx and the founding fathers of (7) .....

## F Listening

Now listen and complete the information about Adam Smith's life.

## G Speaking

Discuss these questions with your partner.

- What use is the study of economics?
- What trade-offs do you make every day?
- How do the decisions we make affect the rest of the world?

### Task

Give a two-minute talk on the history of economic thought.

First, read text 2 again and make notes below on the following.

- early economic thinking
- the classical economists
- neoclassical economics

Notes:

### Pronunciation guide

**Convenience** /kən'vi:niəns/

**Data** /deɪtə/

**Society** /sə'saɪəti/

**Behaviour** /br'heɪvjə(r)/

**Abundance** /ə'bʌndəns/

**Scarcity** /skeəsəti/

**Xenophon** /zenəfən/

**Aristotle** /ærɪstətl/

**Medieval** /medi'i:vəl/

**Precious** /preʃəs/

## H Writing

In this unit you learnt about Adam Smith, a famous 'thinker' from Scotland. Who are the most famous 'thinkers' from your country?

**Work with a partner and decide which Russian thinkers have been most influential. Choose from the following: Kondratyev, Leontyev, Stolypin, Lenin.**

### Magazine article

Write a magazine article about one famous thinker from Russian history. Use the guide to help you organise your article.

**TITLE:** .....

#### PARAGRAPH 1

Who is this thinker and what are they best known for?

#### PARAGRAPH 2

Biographical information: when and where born / family life / important points in life.

#### PARAGRAPH 3

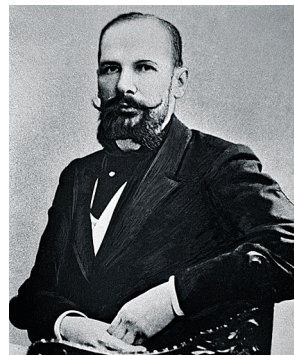
What was his/her message?

What were his/her influential thoughts?

#### PARAGRAPH 4

Why do you think this person is important?

Write 100-150 words



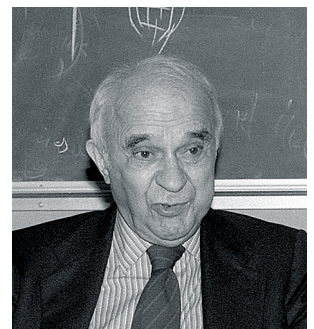
Stolypin



Kondratyev



Lenin



Leontyev